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DEPARTMENT FOR DTCC - BLUE LANTERN COORDINATOR

E.O. 12958: DECL: 03/18/2048

TAGS: [ETTC](#) [JA](#) [KOMC](#)

SUBJECT: GOJ RESPONSE ON BLUE LANTERN LEVEL 3:  
POST-SHIPMENT END-USE CHECK ON LICENSES 050055671,  
050040344, 050027799

REF: A. STATE 09478  
[B. TOKYO 05551](#)

Classified By: Ambassador J. Thomas Schieffer, Reasons 1.4 (b) (d)

¶1. (C) Summary: Post was unable to determine definitively that the end user for the SH-60 helicopter parts listed in reftel is the Japanese Ministry of Defense (MOD) because MOD has been unable to provide inventory records. Describing it as a general practice, trading company officials told us they often increase the number of parts for ITAR license requests to maintain an extra inventory to avoid MOD fines for late delivery on future contracts. Company executives and MOD officials refused to provide copies of contracts to verify their commercial relationship. The Blue Lantern check for F4 parts (Ref B) was also incomplete because MOD could not provide inventory records for products received. End Summary.

¶2. (C) Post contacted Japanese Maritime Self Defense Force (JMSDF) Staff Officer Lt Commander Koshu Nagayama concerning the Ministry of Defense's receipt of SH-60 helicopter parts. On February 19, Nagayama told us the JMSDF does not have inventory records against which to verify the receipt of the parts in reftel. As the unit has no inventory records, Nagayama contacted the trading companies and reported back the following information:

DTC Case: 05002779

Some of the shipment has not been delivered. The delivery is being coordinated between Mitsubishi Heavy Industry (MHI) and foreign consignee, Daicel Chemical Industries. JMSDF reports this is their first purchase via Daicel Chemical. However, Nagayama believes Daicel has sold defense articles to the Japanese Ground Self Defense Force (JGSDF) and Japan Air Self Defense Force (JASDF) in the past.

DTC Case: 050040344

The goods have not arrived yet. They are scheduled to be delivered in seven shipments between March 6, 2008, and July 9, 2009. JMSDF reports they have purchased from foreign consignee Ishikawajima Harima Heavy Industries (IHI) in the past. The previous purchase was a T-700 engine and its parts.

DTC Case: 050046738

The goods have not arrived yet. MHI ordered FCRS (Flight Control Reference System) via Mitsubishi Precision on March 29, 2007 with delivery due July 8, 2009.

Site Visits

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¶3. (C) Because JMSDF had no record of their own parts or of ordered and incoming parts, Post conducted site surveys of both MHI and Ishikawajima Harima Heavy Industries, Ltd. (IHI)

to determine the movement of helicopter parts with greater clarity than our MOD contacts were able to provide.

¶ 14. (C) On February 27, EconOff met with Mitsubishi Heavy Industries (MHI) Defense Aircraft Manager Nobuhiro Kawahara, who said he was nervous; no one from the Embassy had ever visited the company before on a Blue Lantern check. Kawahara explained the MHI function for these licenses is the assembly of completed helicopters for delivery to MOD, along with the delivery of some spare parts. We asked MHI to provide a copy of the contract to confirm definitively the end user of all parts on these licenses, but Kawahara said he would have to check with MOD for permission. (Note: Other companies have provided copies of contracts in the past. End Note.) On March 11, Kawahara told us, per MOD's advice, the contracts would not be provided.

¶ 15. (SBU) On February 29, EconOff met with IHI executives led by General Manager Masato Kawaguchi. Kawaguchi explained IHI's role in this series of cases is to machine the products provided by U.S.-based companies and provide them to HMI. That company then builds the SH-60 helicopters for delivery to MOD. IHI also specializes in testing and refurbishing engines. The end user for the parts from IHI is HMI. After HMI receives the parts from IHI, they assemble them and deliver the final product to MOD. As such, IHI's relationship is with HMI, not MOD.

¶ 16. (C) On February 29 in relation to DTC Case 050055671, Tamagawa Seiki Company Manager Toshimi Kajita told us that sometimes their company orders parts in advance with no MOD contract. Some of the advanced ordered parts are stocked in his company, but not all are listed as "stock," because some are "defective," so they need to order replacements. For example, they ordered and received two shipments of 20, a

total of 40 gear bevels P/N 1050201, of which 24 will be used for the contract with MOD. The remaining parts are simply in stock. This information was forwarded as an email attachment (DTC D) to defense trade controls on March 11, subject line: 0500727799: Blue Lantern SH-60 Helicopter Parts.

¶ 17. (C) Daicel also told us they routinely order parts in advance without MOD contracts to support them. In attachment DTC A of the aforementioned email, it shows how items for the current contract were filled with products obtained via previous licenses, shipped and held in stock. (Note: Japanese trading companies are most likely stocking USML items because MOD charges high penalties for any delays in delivery. End Note.)

¶ 18. (C) Comment: Given MOD has been unable to provide inventory records, Post is unable to make a final determination of the end user in this case.

SCHIEFFER